

**REPORT OF  
FINANCIAL EXAMINATION**

**FARMERS COOPERATIVE INSURANCE  
COMPANY**

**AS OF  
DECEMBER 31, 2004**

**STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI**

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July 12, 2005  
Tina, Missouri

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

**FARMERS COOPERATIVE INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 214 Main Street, Tina, Missouri, telephone number (660) 622-4224. This examination began on July 11, 2005, and was concluded on July 12, 2005, and is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full-scope examination of the Company was made as of December 31, 1999, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2000, through December 31, 2004, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

**Procedures**

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

### **Comments-Previous Examination Report**

The comments, recommendations, and notes of the previous examination report dated December 31, 1999, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

### **Notes to Financial Statements – Guaranty Fund**

**Comment:** The Company was directed to report a guaranty fund amount in its Annual Statement, in accordance with RSMo. 380.271 (Guaranty fund required).

**Company Response:** The Company agrees to report a guaranty fund in future Annual Statements.

**Current Findings:** The Company reported a guaranty fund amount on the 2001 through 2004 Annual Statements.

## **HISTORY**

### **General**

The Company was originally established on April 8, 1893, as Farmers and Laborers Cooperative Company of Carroll County. On August 17, 1913, the Company changed its name to Farmers Cooperative Insurance Company, and was granted a charter of incorporation.

The Company has a Certificate of Authority dated December 1, 1988, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

### **Management**

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the first Tuesday in March, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of

Directors at any time and shall be called upon petition of one-fourth of the members. Eight members shall constitute a quorum at any membership meeting. Proxy voting is not addressed in the Articles of Incorporation.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of six members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month and are compensated \$100 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2004, were as follows:

| <u>Name and Address</u>  | <u>Occupation</u>           | <u>Term</u> |
|--|-----------------------------|-------------|
| Willard D. Wood<br>10378 County Road 270<br>Norborne, Missouri                 | Farmer                      | 2003-2006   |
| Howard Baker<br>12237 County Road 261<br>Hale, Missouri                        | Farmer                      | 2003-2006   |
| David Johnson<br>26726 Ira Drive<br>Brookfield, Missouri                       | Insurance Agent             | 2004-2007   |
| O. L. Houseworth<br>30288 County Road 170<br>Bosworth, Missouri                | Retired Businessman         | 2004-2007   |
| Harold A. Boelsen<br>1012 East 10 <sup>th</sup> Street<br>Carrollton, Missouri | Retired Farmer              | 2002-2005   |
| Chester McBee<br>707 Main Street<br>Braymer, Missouri                          | Retired Government Employee | 2002-2005   |

The Board of Directors appoints for a term of one year, a President, a Vice-President, and a Secretary, who may also serve as Treasurer when designated by the Board.

The officers of the Company serving at December 31, 2004, were as follows:

|                    |                     |
|--------------------|---------------------|
| Willard D. Wood    | President           |
| Chester McBee      | Vice-President      |
| Connie S. Peterson | Secretary/Treasurer |

### **Conflict of Interest**

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. On March 4, 2003, the Articles of Incorporation and Bylaws were amended to reflect the Company's change from an assessable to a non-assessable mutual.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. In addition, the Company's policies for investments and underwriting were reviewed. The minutes and records of the Company appear to properly reflect corporate transactions and events.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of \$50,000. The fidelity bond coverage of the Company does not meet the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$75,000 and \$100,000 in coverage. It is recommended the Company increase its fidelity bond coverage to a minimum of \$75,000.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$750,000 and a \$5,000 deductible in aggregate for each claim.

The Company's agents are responsible for obtaining their own errors and omissions liability coverage, and no reimbursement is made by the Company.

The Company also carries property insurance coverage on its home office and equipment, as well as business liability insurance.

The insurance coverage appears adequate.

## **EMPLOYEE BENEFITS**

The Company has four full-time employees and one part-time employee. The Company provides full-time employees with life insurance and \$300 per month for health insurance. The Company contributes a minimum of 5% of gross wages to the individual retirement accounts of full-time employees, with the actual percentage of contribution determined by the Board of Directors on an annual basis. Full-time employees also receive ten days of sick leave per year and two to three weeks of paid vacation per year, depending on the length of service to the Company. It appears the Company has made adequate provisions in its financial statements for the employee benefit obligations.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operation**

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by seventeen licensed producers, who receive a 15% commission.

### **Policy Forms and Underwriting Practices**

The Company uses AAIS policy forms. The policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting services are performed by a contracted independent inspector/adjuster.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

|       | <u>Admitted<br/>Assets</u> | <u>Liabilities</u> | <u>Gross<br/>Assessment</u> | <u>Gross<br/>Losses</u> | <u>Investment<br/>Income</u> | <u>Underwriting<br/>Income</u> | <u>Net Income</u> |
|-------|----------------------------|--------------------|-----------------------------|-------------------------|------------------------------|--------------------------------|-------------------|
| 2004  | \$2,155,771                | \$944,894          | \$1,336,150                 | \$488,567               | \$68,826                     | \$(106,935)                    | \$(30,734)        |
| 2,003 | 1,722,664                  | 481,053            | 1,069,522                   | 208,102                 | 54,974                       | 256,964                        | 322,230           |
| 2002  | 1,325,766                  | 406,413            | 817,445                     | 189,057                 | 21,049                       | 78,871                         | 104,182           |
| 2001  | 1,170,745                  | 355,574            | 741,843                     | 464,095                 | 47,331                       | (48,844)                       | 967               |
| 2000  | 1,242,234                  | 427,399            | 713,224                     | 476,139                 | 65,731                       | (11,203)                       | 44,158            |

At year-end 2004, 2,436 policies were in force.

## REINSURANCE

### General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

|         | <u>2000</u>       | <u>2001</u>       | <u>2002</u>       | <u>2003</u>       | <u>2004</u>       |
|---------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Direct  | \$ 723,463        | \$ 741,843        | \$ 817,445        | \$ 1,061,254      | \$ 1,327,563      |
| Assumed | 0                 | 0                 | 0                 | 8,268             | 8,587             |
| Ceded   | <u>(279,086)</u>  | <u>(299,728)</u>  | <u>(273,191)</u>  | <u>(295,350)</u>  | <u>(369,839)</u>  |
| Net     | <u>\$ 444,377</u> | <u>\$ 442,115</u> | <u>\$ 544,254</u> | <u>\$ 774,172</u> | <u>\$ 966,311</u> |

### Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 100% of the first \$1,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 100% of the first \$2,000,000 each claim and in aggregate



on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 2% share in the interests and liabilities of the pool.

### **Ceded**

The Company has all of its reinsurance through Cameron Country Mutual Insurance Company (the reinsurer) under a single reinsurance agreement for both property and casualty risks. The per risk excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company retains \$30,000 per risk and the reinsurer's limit is \$100,000. The second layer retention is \$130,000 and the reinsurer's limits are \$50,000 for commercial and confinement risks and \$250,000 for all other risks. The reinsurer's combined per occurrence limit for both layers is \$700,000. Risks ceded under the agreement are limited to \$180,000 for commercial and confinement risks and \$380,000 for all other risks. The 2004 premium rate, as a percentage of written premiums, equaled 7% for layer one coverage and 2% for layer two coverage.

The catastrophe excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company's retention is \$250,000 per occurrence, and the reinsurer's limit is 95% of \$1,000,000 per occurrence. Under the second layer, the Company's retention is \$1,250,000, and the reinsurer's limit is 100% of \$6,000,000. The reinsurer's annual limits are 95% of \$2,000,000 for the first layer and 100% of \$12,000,000 for the second layer. The 2004 premium rate was \$.1032 and \$.2658 per \$1,000 total insurance in force for layers one and two, respectively.

The aggregate excess of loss section of the agreement pertains to property risks. The reinsurer is liable for 95% of losses in excess of 75% of the Company's net written premium, with a maximum limit of \$2,000,000. The 2004 reinsurance rate was 3.0% of written premium.

The contract has a liability quota share section for liability risks. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 22% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent

liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

## **ACCOUNTS AND RECORDS**

The accounting records are maintained by the Company on an accrual basis. An annual review of the Company's financial statements is performed by Van de Ven, LLC, who also prepares the Company's Annual Statement and tax returns.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

**ANALYSIS OF ASSETS**  
**December 31, 2004**

|   |                     |
|---|---------------------|
| Bonds                                     | \$ 1,103,055        |
| Real Estate                               | 279,079             |
| Cash on Deposit (Note 1)                  | 556,286             |
| Other Investments (Note 1)                | 90,442              |
| Reinsurance Recoverables on Unpaid Losses | 70,000              |
| Computer Equipment                        | 7,245               |
| Federal Income Tax Recoverable            | 99                  |
| Interest Due and Accrued                  | 9,600               |
| Asset Write-Ins                           | 39,965              |
|   | -----               |
| Total Assets                              | <u>\$ 2,155,771</u> |

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2004**

|                               |                     |
|-------------------------------|---------------------|
| Losses Unpaid                 | \$ 237,346          |
| Ceded Reinsurance Payable     | 26,046              |
| Unearned Premium              | 480,472             |
| Borrowed Money                | 191,151             |
| Liability Write-Ins           | 9,879               |
|                               | -----               |
| Total Liabilities             | \$ 944,894          |
|                               | -----               |
| Guaranty Fund                 | \$ 150,000          |
| Other Surplus                 | 1,060,877           |
|                               | -----               |
| Total Surplus                 | \$ 1,210,877        |
|                               | -----               |
| Total Liabilities and Surplus | <u>\$ 2,155,771</u> |

**STATEMENT OF INCOME**  
**December 31, 2004**

|                                |              |
|--------------------------------|--------------|
| Net Premium                    | \$ 868,042   |
| Reinsurance Commission         | 35,168       |
| Net Losses Incurred            | (567,116)    |
| Other Underwriting Expenses    | (443,029)    |
|                                | -----        |
| Net Underwriting Income (Loss) | \$ (106,935) |
|                                | -----        |
| Investment Income              | \$ 63,826    |
| Other Income                   | 17,676       |
|                                | -----        |
| Gross Income (Loss)            | \$ (25,433)  |
| Federal Income Tax             | (5,301)      |
|                                | -----        |
| Net Income (Loss)              | \$ (30,734)  |
|                                | =====        |

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2004**

|   |              |
|---|--------------|
| Policyholders' Surplus, December 31, 2003 | \$ 1,241,611 |
| Net Income (Loss)                         | (30,734)     |
|   | -----        |
| Policyholders' Surplus, December 31, 2004 | \$ 1,210,877 |
|   | =====        |

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1 – Cash on Deposit/Other Investments

The Company reported annuity balances of \$90,442 in the “Cash on Deposit” section of the Annual Statement. The balance was reclassified to “Other Investments.”

### EXAMINATION CHANGES

|   |                     |                     |                     |
|---|---------------------|---------------------|---------------------|
| Total Policyholder’s Surplus Per Company, December 31, 2004     |                     |                     | \$ 1,210,877        |
|   | Increase in Surplus | Decrease in Surplus |                     |
| Cash  | \$ 0                | \$ (90,442)         |                     |
| Other Investments   | 90,442              | 0                   |                     |
|   | -----               | -----               |                     |
| Total Change  | <u>\$ 90,442</u>    | <u>\$ (90,442)</u>  | <u>\$ 0</u>         |
| Total Policyholder’s Surplus Per Examination, December 31, 2004 |                     |                     | <u>\$ 1,210,877</u> |

### GENERAL COMMENTS AND RECOMMENDATIONS

#### Fidelity Bond and Other Insurance ( Page 4)

It is recommended the Company increase its fidelity bond coverage to a minimum of \$75,000.

### SUBSEQUENT EVENTS

None.

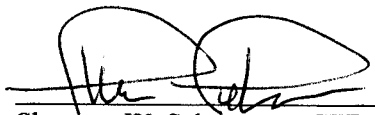
## ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Farmers Cooperative Insurance Company during the course of this examination is hereby acknowledged and appreciated.

## VERIFICATION

State of Missouri    )  
                              ) ss  
County of Cole        )

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

  
Shannon W. Schmoeger, CFE  
Financial Examiner  
Missouri Department of Insurance

Sworn to and subscribed before me this 16<sup>th</sup> day of August, 2005.

My commission expires:

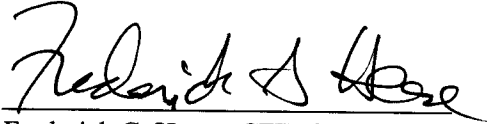
May 1, 2008

  
Notary Public

DEBBIE J. NOLKE  
Notary Public - Notary Seal  
STATE OF MISSOURI  
County of Boone  
My Commission Expires May 1, 2008

## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Frederick G. Heese, CFE, CPA  
Audit Manager – Kansas City  
Missouri Department of Insurance

Sworn to and subscribed before me this 16<sup>th</sup> day of August, 2005.

My commission expires:

03-17-2008

  
Notary Public

BEVERLY M. WEBB  
Notary Public - Notary Seal  
STATE OF MISSOURI  
Clay County  
My Commission Expires March 17, 2008

FARMERS COOPERATIVE INSURANCE COMPANY  
P.O. BOX 10 TINA, MISSOURI 64682

October 3, 2005

RECEIVED

OCT 03 2005

Kirk Schmidt, CFE, CPA  
Department Of Insurance  
P.O. Box 690  
Jefferson City, Missouri 65102-0690

DIVISION  
FINANCIAL REGULATION

Dear Sir:

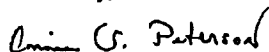
This letter is in response to the Report of Financial Examination of Farmers Cooperative Insurance Company for the period ending December 31, 2004.

On page 3 of the Report it states that proxy voting is not addressed in the Articles of Incorporation. The Articles of Incorporation of the company state under Article VII that proxy voting is allowed.

On July 25, 2005 the company increased their fidelity bond coverage to \$100,000.

The Company has an annuity investment issued by Physicians Life Insurance Company. The Company previously obtained Department approval to invest in a Cameron Life Insurance Company annuity, but did not ask for approval to invest in the Physicians Life Insurance Company investment purchased through Cameron Life. The Company would like to ask approval from the Department at this time to invest in the Physicians Life Insurance Company annuity.

Yours Truly,



Connie S. Peterson  
Farmers Cooperative Insurance Company  
P.O. Box 10  
Tina, Missouri 64682  
660-622-4224